
LEGAL INVESTMENTS FOR COLORADO LOCAL GOVERNMENTS



FINANCIAL MANAGEMENT ASSISTANCE

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INTRODUCTION

LEGAL INVESTMENTS FOR COLORADO LOCAL GOVERNMENTS

Colorado local governments' investment of public money is prescribed by statute. The following information is intended as general guidance on legal investments for Colorado local governments. The Division of Local Government does not represent the information provided below to be a complete review of relevant statutes for every local government entity type. The information provided is not to be considered or construed as legal advice. Any local government considering investment of public moneys should obtain competent legal counsel.

The Colorado Constitution and several statutes govern how public moneys are invested and where public moneys are deposited; statutes also grant exceptions and exemptions for certain local governments. Notably, home-rule cities, towns, counties and the home-rule city and county are exempt from the general investment statute. Home rule entities should review their home-rule charter provisions. Certain special funds, for example, pension plan funds, are also exempt from the general public money investment statute. Limited references to legal investments for special funds are scattered throughout the Colorado revised statutes.

For more information or for more DOLA technical assistance publications see the department's web site at www.dola.state.co.us and click on Data, Information and Publications.

CONSTITUTIONAL CITATIONS

A specific prohibition against local government investment as a shareholder in a corporation or company is found in Article XI, Section 2, Colorado Constitution. The section prohibits a local government from becoming a shareholder in any public or private corporations or companies, in- or out-of-state. Certain exceptions are stated.

STATUTORY CITATIONS

The authority for local governments to invest funds is found in statute pertaining to the financial powers of specified governmental entities and/or in statutes on legal investment and deposits. The following are enumerated in the local government's enabling legislation:

Statutory Cities and Towns CRS § 31-20-303(1)(b)

- The treasurer shall deposit all funds subject to CRS 24-75-601, et seq., in one or more state banks or national banks having their principal office in Colorado, or in savings and loan associations in compliance with CRS 11-47-101, et seq.
- The governing body, by resolution, may authorize investment of funds in compliance with CRS 24-75-601, et seq., or by any other law of the state.

Counties CRS § 30-10-708(1)

- The county treasurer shall deposit all funds in one or more state banks, national banks, or in savings and loan associations in compliance with CRS 11-47-101, et seq.
- The board of county commissioners, by written resolution, may authorize the county treasurer to invest funds in compliance with CRS 24-75-601, et seq.

Special Districts (Title 32, Article 1 Districts) CRS § 32-1-1001(1)(e) and CRS § 32-1-1101(5)

- The board of directors, for and on behalf of the district, has the power to invest any money of the special district in accordance with CRS 24-75-601, et seq.
- If a district has moneys on hand which are not then needed in the conduct of its affairs, the district may deposit such moneys in any state bank, national bank, or state or federal savings and loan association in Colorado in accordance with state law.
- A special district's moneys may be pooled for investment subject to the requirements of CRS 24-75-701, et seq.

GENERAL PUBLIC MONEYS INVESTMENT (STATUTORY OVERVIEW).

The investment of general revenues of local governments is prescribed in "Funds - Legal Investments," CRS § 24-75-601, et seq. The "Funds - Legal Investments" statute addresses the following:

- definition of "public entity" (CRS § 24-75-601(1))
- definition of "public funds" (CRS § 24-75-601(2))
- definition of "security" (CRS § 24-75-601(3))
- list of eligible securities (CRS § 24-75-601.1(1))

- investment in securities with a fixed coupon rate from settlement to the maturity date (CRS § 24-75-601.1(1.3))
- firms that sell financial instruments which fail to comply (C.R.S. § 24-75-601.1(1.5))
- conformance with “prudent man standard” (CRS § 24-75-601.1(2))
- power to invest in any investment permitted under other valid law (CRS §24-75-601.1(3)(a))
- exemption of home rule entities (CRS § 24-75-601.1(3)(b))
- exemption of pension plan funds (CRS § 24-75-601.1(4))
- validity of investments made prior to 7/1/89 (CRS § 24-75-601.2)
- divestment of securities not lawful under section (CRS § 24-75-601.3)
- liability of public officials (CRS § 24-75-601.4)
- liability for sale of unlawful investments (CRS § 24-75-601.5)
- bonds of housing authority as legal investments (CRS § 24-75-602)
- local governments may deposit funds in any state bank, national bank, or state or federal savings and loan association (CRS § 24-75-603)
- investment in bonds issued by institutions of the farm credit system (CRS § 24-75-604)
- legal investments - cities of 25,000 or more population - special funds including pension, endowment, and trust funds - limitation in class of investments (CRS § 24-75-605)

LIST OF LEGAL INVESTMENTS OF PUBLIC FUNDS.

The following descriptions are summaries only, current as of April 1999. When consulting the Colorado Revised Statutes, be certain to use the most current edition. Section CRS § 24-75-601.1(1) defines the maximum maturity of a security as five years or less, from the date of purchase, unless the governing body authorizes, by resolution or ordinance, a longer maturity period. CRS § 24-75-601.1 lists the following eligible securities:

1. Direct obligations of the United States.
2. Obligations of U.S. Government Agencies. Specifically mentioned in the law are securities issued by FNMA (federal national mortgage association) “Fannie Mae”; by GNMA (government national mortgage association) “Ginnie Mae”; by FHLMC (federal home loan mortgage corporation) “Freddie Mac”; by the federal farm credit bank; by the federal land bank; and by the export-import bank.
3. Securities of entities or organizations not listed above, but created by, or authorized to be created by legislation of, the U.S. congress where the issuing agency is subject to control by the federal government at least as extensive as that which governs the agencies listed above. All of these securities must be rated in the highest category by one or more nationally recognized rating agencies.

4. Securities of the world bank, the inter-American development bank, the Asian development bank, or the African development bank. These securities must be rated in the two highest rating categories by one or more nationally recognized rating agencies.
5. General obligations of any state of the United States, the District of Columbia, the territorial possessions of the U.S., or political subdivisions of any state. These securities must be rated in the highest three rating categories by one or more nationally recognized rating agencies.
6. Revenue obligations of any state of the United States, the District of Columbia, the territorial possessions of the U.S., or political subdivisions of any state. These securities must be rated in the highest two rating categories by one or more nationally recognized rating agencies.
7. Certain bankers' acceptances. Banks issuing bankers' acceptances must meet capital and surplus requirements, their deposits must be insured and their debt must be rated.
8. Commercial paper rated in the highest rating category by one or more nationally recognized rating agencies.
9. The investing local government's own securities including certificates of participation and lease obligations.
10. Any interest in a local government investment pool pursuant to CRS § 24-75-701, et seq.
11. Repurchase agreements for any of the U.S. Government and agency securities listed in paragraphs one and two above, under certain conditions, including that the securities must be marketable; that the market value of such securities at all times must be at least equal to the funds invested by the investing public entity; and that the title must be transferred and the securities must actually be delivered.
12. Certain money market funds. Statutes impose several conditions including registration of the fund under the federal "Investment Company Act of 1940"; that the fund seeks to maintain a constant share price; the fund charges no sale or load fees; the fund invests only in securities listed above, with a few specific exceptions; the securities have maximum maturity as specified in rule 2a-7 of the federal "Investment Company Act of 1940" with additional limitations; the fund has assets of a certain amount; or has the highest current rating from a nationally recognized rating agency; or consists of certain securities; and the dollar-weighted average portfolio maturity meets requirements of rule 2a-7 with additional limitations.

13. Certain guaranteed investment contracts purchased only with debt, certificates of participation, or lease-purchase agreement proceeds, but no refunding proceeds.
14. U.S. dollar denominated corporate or bank debt, issued by a corporation or bank organized and operating within the United States with a net worth in excess of \$250,000,000; the debt matures within three years; the debt must carry at least two ratings not below "AA- or Aa3" from any nationally recognized rating agencies; and the book value of the local government's investment in this type of debt shall at no time exceed 30% of the government's investment portfolio, or five percent of the book value if the debt is issued by a single corporation or bank.

PRUDENT MAN STANDARD.

Investments made pursuant to CRS § 24-75-601.1 must be made in accordance with the "prudent man (person)" standard of CRS § 15-1-304, (CRS § 24-75-601.1(2)). This requirement states that fiduciaries, such as official custodians who make investments or deposits for local governments, are obligated to exercise

... the judgment and care, under the circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital. (CRS § 15-1-304) *underlining added*

Another example of specific prudent standard language is found in CRS § 24-75-705 and applies to the board of trustees of local government investment pool trust funds. The board is charged with making legal investments

... with that degree of judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital and need for liquidity as well as the probable income to be derived. (CRS § 24-75-705) *underlining added*

Persons or entities responsible for investing funds who are not subject to a standard specifically set forth in another statute, nor subject to section CRS § 15-1-304 by a specific reference in another statute prior to July 1, 1995, must adhere to the standard set forth in the "Uniform Prudent Investor Act," CRS § 15-1.1-101, et seq.

WHAT YOU CAN'T INVEST IN.

The following does not attempt to be a complete listing. Examples of some things a local government cannot invest in are the following: equities -- common or preferred stock of corporations; Certificates of Deposit (CDs) in out-of-state banks; real estate; commodity futures; collateralized mortgage obligations (CMOs), except those issued directly by government agencies; unit investment trusts (UIT); art and other collectibles.

Local governments considering investing in "Sallie Mae's," obligations of the Student Loan Marketing Association (SLMA), are strongly urged to obtain a legal opinion as to the legality of these instruments under Colorado local government investment law. Statute permits investment in any security issued by the Government National Mortgage Association (GNMA), therefore, purchasing GNMA securities from a broker is legitimate. However, derivative securities backed by GNMA securities that have been created by brokers, are not legal investments.

PENSION FUNDS.

As indicated above in the General Public Moneys Investment section, pension funds are specifically exempted from the funds - legal investments section CRS § 24-75-601.1. Pension fund investment (and administration) is a specialized area of knowledge, especially as it relates to police and firefighter pension plans. There are several pension fund investment citations that note exceptions. DLG does not represent the following to be a complete listing.

Fire and Police Pension Plans: The firefighter and police pension plan statutes are frequently amended. In May 1996 legislation amended and relocated parts three through ten of article 30, Title 31, CRS, Fire - Police - Sanitation. The statutes make several distinctions between pension plans for "old hires" and for "new hires" and between paid and volunteer firefighters. Both old hire and new hire employers may elect to affiliate with the Fire and Police Pension Association (FPPA) to administer and manage the plans and funds. The FPPA is located at 5290 DTC Parkway, Suite 100, Greenwood Village, CO 80111 (303) 770-3772 (FPPA) or 1-(800) 332-FPPA. Police officers and firemen's pension fund investment is addressed in:

- Fire - Police - Old Hire Pension Plans - Investments - Insurance (CRS § 31-30.5-501) [investment]. This applies to the pension funds created by municipal employers of police officers or firefighters and special district or county improvement district employers of firefighters hired on or before April 7, 1978. Investment restrictions are no longer related to the population of the employing jurisdiction.
- Fire - Police - Old Hire Pension Plans - Exempt Plans (CRS § 31-30.5-803) [investment]. This section applies to any municipality, fire protection district, or county improvement district that established an exempt alternative police officer/firefighter pension benefit program or a combination pension and insurance benefit program prior to January 1, 1980.

- Fire - Police - New Hire Pension Plans - Fire and Police Members' Benefit Fund (CRS § 31-31-302 (1) and (6)) [investment]. The Fire and Police Members' Benefit Fund consists of the assets of fire and police benefit plans including the statewide defined benefit plan (CRS § 31-31-401, et seq.); the old hire plans affiliated with FPPA (CRS § 31-30.5-701, et seq.); exempt plans (see CRS § 31-30.5-803, above) affiliated with FPPA, and volunteer firefighter pension plans affiliated with FPPA (CRS § 31-31-705).
- Fire - Police - Sanitation - Volunteer Firefighter Pension Act (CRS § 31-30-1113) [investment]. This act provides for the creation of a volunteer firefighter pension fund in any municipality or special district or county improvement district that maintains a regularly organized volunteer fire department. The board of trustees of the pension fund, with the voted concurrence of 65 percent of both active and retired members, may also invest in certain insurance policies (CRS § 31-30-1114).
- State Funds - Funds - Legal Investments (CRS § 24-75-605) [investment]. This section applies to special funds of cities of 25,000 or more population. Moneys in policemen or firemen's pension funds may be invested in limited amounts in certain classes of investments (Class 1 - 6). It is lawful to invest in these classes of investments if this authorization to invest moneys does not affect the administration of or control over these funds.

Local Government Employees and Officers Pension:

- Pension plans for local government employees who are not police or firefighters and local government officers are addressed as follows:
- County, Municipal, and Special District Officers' and Employees' Retirement Systems (CRS § 24-54-101, et. seq.)
- Any county, municipality and special district may, by itself or in conjunction with any other like government, establish and maintain a general plan or system of retirement benefits for its members. Municipalities and special districts may also join with a county to establish a plan. The entities will form an association to purchase, establish or procure a group annuity retirement plan or a non-insured trust retirement plan. (CRS § 24-54-106). When the retirement board of such a joint county, municipal or special district retirement system determines to participate in a non-insured trust retirement plan with a bank or trust company, the plan's trustee will invest only in investments specified in CRS § 24-54-112. (CRS § 24-54-108(2)(b)). If the retirement board determines to participate in a non-insured trust retirement plan, the treasurer of the most populous county, municipality, or district of the association establishing the retirement plan shall be the treasurer ex-officio of the association. That individual shall invest only in securities specified in CRS § 24-5-112. (CRS § 24-54-108(2)(c) and (4)).
- An individual county, municipal or special district retirement plan's board shall select a plan from among the same choices of type of plan as enumerated above for joint retirement plans. The requirement to make

investments pursuant to CRS § 24-54-112 also applies to individual entity plans. (CRS § 24-54-108.5) A group association or an individual entity may also select to participate in the public employees' retirement association. (CRS § 24-54-108(1)(d) and CRS § 24-54-108.5 (1)(d)).

- The Colorado County Officials and Employees Retirement Association ("CCOERA") is an association organized under this statute. (303)698-0313 or 1(800)352-0313.
- Public Employees' Retirement Association ("PERA") - Affiliation by Public Entities (CRS § 24-51-309) [investment]. This section permits any political subdivision within the state to apply for affiliation with PERA. If membership through affiliation is approved by the PERA board, the contributions of the local government membership may be invested pursuant to CRS § 24-51-206. PERA is located at 1300 Logan Street, Denver, CO 80203 (303) 837-6250 or 1(800) 759-PERA.
- State Funds - Funds - Legal Investments (CRS § 24-75-605) [investment]. This section applies to special funds of cities of 25,000 or more population. Moneys in pension funds may be invested in limited amounts in certain classes of investments (Class 1 - 6). It is lawful to invest in these classes of investments if this authorization to invest moneys does not affect the administration of or control over these funds.

SPECIAL FUNDS.

The investment of special funds such as trust funds and endowment funds is cited in CRS § 24-75-605 "Legal investments - cities of twenty-five thousand or more population." Municipalities with populations less than 25,000 persons and other local governments should seek legal advice regarding investment of special fund moneys.

PUBLIC DEPOSIT PROTECTION.

Statute addresses the protection of public moneys deposited in banks and savings and loan associations. The legal requirements provide for the preservation and protection of all public funds on deposit in these institutions which are not insured either by, or in excess of the insured limits of, federal deposit insurance or the federal savings and loan insurance. Further, in the event of a default, statutes provide for the expedited repayment of deposited funds. Local governments, including home rule entities, are subject to these public deposit protection acts:

- Local governments may deposit moneys only at banks which are "eligible public depositories" pursuant to the Public Deposit Protection Act, CRS § 11-10.5-101, et seq.
- Local governments may deposit moneys only at savings and loan associations which are "eligible public depositories" pursuant to the Savings and Loan Association Public Deposit Protection Act, CRS § 11-47-101, et seq.

Any official custodian of public moneys seeking to open a bank account in an eligible depository in Colorado must obtain public deposit account identification numbers from the Colorado Division of Banking. The Division of Banking designates and certifies a bank as an “eligible public depository.” A local government seeking to use an eligible public depository should request a copy of the bank’s “eligible public depository designation certificate.” PDPA questions may be addressed to Ms. Cynthia Chamberlin, Program Director, Division of Banking, 1560 Broadway, Suite 1175, Denver, CO 80202 (303) 894-7571. Information about PDPA depositories may also be found on the Banking Division’s web page:

<http://www.dora.state.co.us/banking/pdpainformation/pdpaindex.htm>

Savings and Loan Association Public Deposit Protection Act questions may be addressed to Mr. David Francis, Examiner, Division of Financial Services, 1560 Broadway, Suite 1520, Denver, CO 80202 (303) 894-2336. Information about eligible public fund depositories may also be found on the Financial Services Division’s web page:

<http://www.dora.state.co.us/financial-services/>

Note: Certificates of Deposit (“CDs”) and other deposits are permitted only in “eligible public depositories.” Out-of-state banks are not “eligible public depositories,” therefore, holding a CD in an out-of-state bank violates this provision of the PDPA statute.

Public Depository Investment on Behalf of Local Governments:

Banks and savings and loan associations which are eligible depositories pursuant to the above referenced public deposit protection statutes may act as agents on behalf of any official custodian of public moneys and invest said moneys.

- A bank which is an eligible public depository may act as an agent and invest public funds pursuant to CRS § 11-10.5-111(5).
- A savings and loan association which is an eligible public depository may act as an agent and invest public funds pursuant to CRS § 11-47-118(3).

Any investments made by these institutions on behalf of local governments must be in securities authorized by CRS § 24-75-601.1. (CRS § 11-10.5-111(6) and CRS § 11-47-118(3)). The banks and savings and loan associations engaged to invest on behalf of local government clients must keep accounting records that clearly distinguish between the investment activity on behalf of local governments and investment activity to meet the public depositories’ eligible collateral requirements. **Note:** moneys invested by an eligible public depository acting as an agent for a local government are not insured by the FDIC.

LOCAL GOVERNMENT INVESTMENT POOLS.

Pursuant to CRS § 24-75-701, et seq., local governments may pool moneys they do not immediately need in a “local government investment pool trust fund.” The pooling of moneys permits local governments to take advantage of short-term investments for which they individually may not have sufficient minimum capital and to maximize net interest earnings. The pool trust funds may only invest in securities that all participating local governments may individually invest in. (CRS § 24-75-704(1)) The investment pool trust fund is created by resolution, drafted and adopted by each participating government's governing body.

- The resolution must state the investment objectives of the trust.
- The resolution will provide a description of, and credit standards for, eligible trust fund investments; and, indicate allowable maturity ranges of the fund investments.
- Portfolio concentrations for types of securities owned by the fund must be described.

The following must also occur:

- A supervisory board of trustees is created from local officials of participating local governments.
- An administrator is appointed.
- A custodian of the fund is appointed.
- A financial advisor is appointed.

The statute describes the duties and liabilities of the board of trustees. The statute also enumerates “unlawful activities” for the board of trustees, the administrator, the custodian and the financial advisor. (CRS § 24-75-705, 706, 707, and 708, respectively).

The Colorado Commissioner of Securities administers and enforces the requirements of creating and operating a local government investment pool (CRS § 24-75-709). The securities commissioner's office maintains a list of active local government investment pool trust funds. Division of Securities, 1580 Lincoln St., Denver, CO 80203 (303) 894-2320.

PUBLIC PORTFOLIO MANAGEMENT

Sound Investment Practices

Sound investment policies and practices will assist a local government in prudent, legal investing. Policies serve to protect public moneys and the organization's staff and elected officials as they carry out their duties. Answering the following questions will help a local government gain an overview of its current investment situation:

- Why do we invest? What is the purpose of our investment?

- What do we invest in? Do our investments reflect our policy and our purpose for investment?
- Do we have an investment policy? Is it a written document? What does it say? Who approved it?
- Who has the authority to invest?
- Who has oversight responsibility before and after investments are made?

Develop a Strategy:

To develop an investment strategy appropriate to its financial size and needs, a local government will want to utilize its financial and cash management resources. Evaluating a government's cash management/investment needs will require, among other activities, a review of the government's operational and financial condition and any existing legal constraints. The local government then will be able to:

- Clarify any legal and other limitations on public money investment including home rule charters, existing ordinances, state constitutional and state and federal statutory restrictions
- Identify preferences for investing locally or out-of-community
- Identify suitable, legal investment instruments
- Determine investment objectives
- Establish policies
- Identify and implement necessary systems of internal control to:
 - segregate duties
 - establish authorization for transactions
 - ensure proper reporting for transactions (a reliable accounting system)
 - establish a purchasing system
 - identify who maintains custody and safekeeping of funds and securities
- Establish bank and broker relationships through a RFP process and with formal agreements
- Monitor, report and analyze investment activity
- Be prepared to respond to internal and market changes

For example, as part of its operational review, the local government should determine its cash flow by examining its funds (the general fund, the capital improvement fund, the debt service fund, the pension fund, the special assessment fund, etc.). To do this, list on a monthly or weekly basis when the cash from each of these sources is received. It is important to identify which revenues come from recurring sources (local taxes, fees, intergovernmental payments) and those that are special, non-recurring revenues (grants, bond and lease proceeds, restricted use revenues, gifts).

Similarly, when expenses are tracked by amount due, type of expense and due dates, the local government can reasonably anticipate how much revenue is needed for disbursement deadlines. From this information the investment

portfolio can be structured to have securities mature as disbursement needs occur. For some local governments this information may also identify times when it might become necessary, as a last resort, to borrow funds for the “short-term,” in anticipation of a known, future period of revenue collection.

Adopt an Investment Policy: Having thought through and discussed the processes for each of the items listed above (and any others the entity may have discovered as relevant), the governing body is strongly urged to adopt an investment policy tailored to that entity’s specific needs. The policy will guide the investment activities. The above-itemized elements address specific concerns that are recommended to be included in a policy. These include statements as to what the policy applies to, that is, its “scope”; the “objectives” of investment described below by the acronym “SLY”; the standard of care to be used in investment (i.e., the prudent person standard); the safekeeping and custody of the securities; suitable and legal investment types; the portfolio structure -- addressing maximum maturities and diversification; monitoring, evaluating and reporting on the investment portfolio status and performance; and the manner of reviewing and amending the investment policy.

- A sample investment policy to use as a beginning point for drafting your own policy is available from the Government Finance Officers Association (GFOA). (312) 977-9700 or at the GFOA Internet address: http://www.gfoa.org/policy/inv_pol.htm.
- Many Colorado local governments are willing to share examples of their policies. These sample/examples can be used as a starting point to ask and answer the questions needed to develop a policy specific to your entity.
- The Municipal Treasurers’ Association of the United States and Canada (MTA US&C) offers an Investment Policy Certification Program which recognizes outstanding examples of written policies and provides professional guidance and assistance in developing or improving existing investment policies. (202) 833-1017.

SLY:

The acronym “SLY” should guide local government investment.

1. “S” - Safety - “S” has primary importance The local government must understand the importance of preserving capital. It must, therefore, define all risk associated with any security by reviewing credit risk (the possible default of the security issuer) and interest rate risk (falling value due to market conditions).
2. “L” - Liquidity -“L” is of secondary importance The local government must understand investment maturity. It must determine whether the maturity is within legal guidelines and whether the investment maturity will coincide with anticipated, as well as unexpected, cash needs. Securities with active secondary markets and money market mutual funds are useful in

order to respond to unanticipated cash needs. Penalties, sometimes large, are usually assessed for early redemption of less liquid securities.

3. “Y” - Yield -“Y” has the least importance. Staff and elected officials must discuss how maximizing return fits into the government's investment plan. While generating income may be a desirable goal of investment, the overarching goal should be to ensure safety and liquidity. An objective of the investment plan should be to attain a market rate of return for the type of investment used. A local government must understand the percentage rate of interest an investment will yield and track actual rates of returns on investments to compare them with the market rate of return for securities of similar risk. If the monthly, or more frequent, reports of investment returns show earnings higher than the going market rate of return, high-risk investments are probably in the portfolio.

RULES OF THUMB:

- Don't make investments you don't understand.
- Don't allow yourself to be pressured into buying a security. If a salesperson says an investment is “too good to pass up,” it should be passed up. Interest rates, even a few percentage points above market rates, may signify speculative, high-risk investments. The security is probably illegal under the above cited statutes.
- Obtain/solicit competitive price and yield quotations from different banks and brokers for the securities you are considering purchasing.
- Take into account any costs related to the transaction(s).
- Thoroughly investigate any broker or dealer offering any securities being considered for purchase. Contact the National Association of Securities Dealers (NASD) Central Registration Depository (“CRD”) to obtain work histories on dealers and firms. 1 (800) 289-9999 or the Internet site: <http://www.nasdr.com>.
- You may also contact the Colorado Division of Securities at (303)894-2320. The Division has access to the CRD and can assist you with questions about unfamiliar investments.

ACCOUNTING AND FINANCIAL REPORTING FOR CERTAIN INVESTMENTS AND FOR EXTERNAL INVESTMENT POOLS

GASB No. 31

The Governmental Accounting Standards Board (GASB) released standard number 31 in the spring of 1997. The standard establishes accounting and reporting standards for investments held by local governments. It became effective for accounting periods beginning after June 15, 1997. This standard requires local governments to report investments at “fair value” (formerly known as “market value”) on their financial statements' balance sheet. Corresponding increases or decreases in fair value are then reported on the income or revenue statement. The reported gains or losses are unrealized if the investments have not been sold; therefore, local government officials need to be able to inform

users of the financial statements of the apparent, but not actual, positive or negative impact of the reported gains or losses on the financial condition of the local government.

GLOSSARY OF CASH MANAGEMENT TERMS

Several published glossaries of cash management terms are available. These include:

- Moody's on Municipals, An Introduction to Issuing Debt [published by Moody's Investors Service].
- Glossary of Municipal Securities Terms, Adapted from the State of Florida's Glossary of Municipal Bond Terms [published by the MSRB (Municipal Securities Rulemaking Board)].

GFOA has a glossary of cash management terms attached as an appendix to its Sample Investment Policy. Most resource documents on municipal bonds and public money investment include glossaries. These resources are available at libraries, bookstores and from securities' rating agencies, GFOA, the MSRB, and most individual brokers.

Summary of Certain Characteristics of Legal Investments Under C.R.S. §24-75-601.1

5/28/2002

	Definitions	Minimum Investment	Maturity Range	Type	Liquidity	Credit Risk
Treasury Securities	Direct Obligation of US	Bills - \$10K Notes - \$1K - \$5K Bonds - \$1K	Bills - 3,6,12 mo Notes - 1-10 yrs. Bonds -10-30 yrs	Discounted or Interest Bearing	High degree: active 2'ndary market, available maturities	Backed by full faith & credit of gov't. 100% guaranteed
Agencies	Debt security offered by federal or federally sponsored agency	Varies by agency	Varies: short to long term	Discounted or Interest Bearing	Less than Treasuries due to less developed market	Backed by credit worthiness of agency; gov't sponsored does not nec. mean gov't backed. GNMA's are gov't backed.
Bankers Acceptances (BA)	Bank order to make specific payments, backed by LOC	\$100K	Short term: 30-180 days	Discounted	High degree: volume in 2'ndary market	Viewed as bill of exchange, backed by letter of credit.
Commercial Paper	Unsecured promissory note issued by a corporation Possibly lower rate than prime	Usually \$100K, can be less.	Short term: 3-270 days	Discounted or Interest Bearing	Virtually no 2'ndary market but direct issuers may buy back for good cause	Backed by credit worthiness of issuing corporation. Must have highest credit rating.
Repurchase Agreements ("Repos")	Issuer sells security for stated interest rate and maturity and agrees to repurchase	\$100K	Short term: Overnight to 6 mo. Some open.	Interest Bearing at maturity	Maximum in Overnight; term liquid according to period	Viewed as collateralized loan. Value of securities is investor's guarantee.
Money Market Funds	Open end investment company sells shares	No limit	Short term per Rule 2a-7 of 1940 Act; if Act is amended, CO. law will not allow > than 3 years w/ dollar weighted maturity not > than 180 days.	Share = \$1	Highly liquid; can sell shares back to fund and withdraw moneys at any time	Fund has assets of \$1B or more; or has highest current credit rating; or fund consists of specified securities.
Guaranteed Investment Contracts (GICs)	Uninsured; not-guaranteed; no collateral.	Varies with each contract. Statute limits use to investment of bond proceeds.	Short to long term. Set at original issuance.	Interest payable as structured to meet liquidity needs.	Virtually none unless written into structure.	Backed by credit worth. of insurance company. Issuer's claims paying ability must be rated in the highest category by nat'l rating agencies.
US \$ Denominated Corporate or Bank Debt	US corporate or bank debt issued by same organized & operated in US w/ net worth >\$250M	\$10K	Within 3 yrs from date of settlement	Interest Bearing; a few, very long bonds may be zeros.	Liquidity tied to rating and recognition.	Debt must carry at least two credit ratings from nat'l rating firms not rated below "AA- or Aa3".
Certificate of Deposit (CD) Only in Colorado "eligible public depositories."	Time deposit (not investment) at bank or S&L; pre-set rate and period.	Varies. Usually \$2.5K	Short to long term	Interest bearing, payable monthly, quarterly or semiannually.	Liquidity limited by maturity; penalty for early withdrawal	Insured to \$100K by FDIC; for deposits > \$100K public depositories must have eligible collateral